

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 IO-13 ISO-00 SP-02 ICA-11 AID-05
EB-08 NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-10 NSAE-00 XMB-02
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R 080413Z JUN 78
FM AMEMBASSY WELLINGTON
TO SECSTATE WASHDC 5694
USMISSION GENEVA
INFO AMEMBASSY CANBERRA
AMEMBASSY PARIS
AMEMBASSY TOKYO
AMCONSUL AUCKLAND POUCH

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GENEVA FOR USMTN
PARIS FOR OECD

E.O. 11652:N/A
TAGS: ECON, EAGR, EFIN, ETRD, MTN, OECD
SUBJECT: 1978/79 NEW ZEALAND BUDGET

BEGIN UNCLASSIFIED

1. SUMMARY.
RECENTLY ANNOUNCED BUDGET HAS IMPLICATIONS FOR MTN
NEGOTIATIONS. SUBSIDIES TO FARMERS AND TAX CUTS AS
REFLATIONARY DEVICES ARE THE KEY ELEMENTS OF THE
DOCUMENT. THE DEFICIT WILL REACH AN ALL TIME HIGH
(DOLSNZ1050 MILLION) IN DOLLAR TERMS, BUT AT 6.4 OF
GNP WILL BE LESS IN REAL TERMS THAN THE 1975-76 LABOR
GOVERNMENT LEVEL (9.2 OF GNP). END SUMMARY
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2. SUBSIDIES AND GRANTS, RANGING FROM SHEEP TO WIGS
CHARACTERIZED THE 1978/79 STATE BUDGET UNVEILED
JUNE 1ST BY PRIME MINISTER MULDOON. AS EXPECTED THE
BUDGET WAS DESIGNED TO MEET THREE BASIC GOALS:
(A) GIVE AN EXPANSIONARY PUSH TO A FALTERING ECONOMY;
(B) DISTRIBUTE THE TRADITIONAL LARGESS BEFORE AN

ELECTION (NOVEMBER);

(C) RESTORE CONFIDENCE IN THE FARMING COMMUNITY WHICH HAD BEEN HIT BY LOWER PRICES FOR SOME COMMODITIES ABROAD AND BY DROUGHT AND RISING INPUT COSTS AT HOME. AS A RESULT OF THESE AND OTHER MEASURES NET EXPENDITURE IS EXPECTED TO RISE BY 16.5 TO DOLSNZ6605 MILLION. THIS LEVEL WILL RESULT IN A DEFICIT BEFORE BORROWING OF DOLS NZ 1050 MILLION. THIS IS A RECORD LEVEL IN DOLLAR TERMS DUE TO SOME EXTENT TO INFLATIONARY PRESSURES. THE PRIME MINISTER HAS BEEN QUICK TO POINT OUT, HOWEVER, THAT THIS FIGURE REPRESENTS 6.4 OF THE PROJECTED GNP THIS FINANCIAL YEAR IN CONTRAST TO THE 1975-76 DEFICIT UNDER THE LABOR GOVERNMENT WHICH REACHED 9.2.

3. MAIN ELEMENTS OF THE NEW BUDGET ARE AS FOLLOWS:

(A) FOR FARMERS:

MORE MONEY FOR MEAT, WOOL AND DAIRY PRODUCTS, FERTILIZER, TRANSPORT, IRRIGATION AND MACHINERY. CASH GRANTS AS BASIC DROUGHT RELIEF AND A NEW PROGRAM OF GOVERNMENT PRICE SUPPORTS ARE THE MAIN VEHICLES FOR NEW AID TO THE RURAL SECTOR.

(B) FOR FISHING:

SUBSIDIZED LOANS FOR THE PURCHASE OR MODIFICATION OF NZ-BUILT BOATS, AND LOANS TO ENCOURAGE DEVELOPMENT OF LIMITED OFFICIAL USE

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SHELLFISHING INDUSTRY; AID TO PACKING INDUSTRY.

(C) FOR ENERGY:

GASOLINE TAX RAISED BY 2 CENTS PER LITRE; INCENTIVES FOR PRODUCTION OF LPG AND NATURAL GAS AND USE OF INSULATION AND SOLAR HEATING.

(D) FOR TAXPAYERS:

A GENERAL SHAKEUP OF THE TAX TABLES WILL GIVE ABOUT 1.4 MILLION PEOPLE TAX CUTS RANGING UP TO DOLS NZ 382 A YEAR.

(E) FOR EVERYONE:

INCREASED RAIL RATES, MORE MONEY FOR EDUCATION, ARTS, HEALTH (INCLUDING A WIG SUBSIDY FOR THE BALD), SOCIAL WELFARE, MAORI AFFAIRS AND HOUSING.

COPIES OF THE FULL BUDGET WILL BE SENT AS PART OF THE EMBASSY'S REGULAR CERP PROGRAM FOR THOSE ADDRESSEES WISHING DETAILED INFORMATION ON THESE POINTS.

4. THE YEAR OF THE FARMER:

THIS YEAR'S BUDGET HAS BEEN LABELLED ONE FOR THE FARMERS, GIVEN THE HEFTY AMOUNT OF ASSISTANCE AND SUBSIDY GRANTED THE AGRICULTURAL SECTOR. FARMERS HAVE LONG BEEN THE ECONOMIC BACKBONE OF THIS COUNTRY AND AT SAME TIME GENERALLY SUPPORTERS OF THE RULING NATIONAL PARTY. IN RECENT MONTHS INCREASED ATTENTION HAS BEEN FOCUSED ON THE QUESTION OF FALLING RETURNS ON THE FARM, CAUSED BY A COMBINATION OF OVERSEAS MARKETING PROBLEMS, DROUGHT, RISING PROCESSOR CHARGES AND ESCALATING INPUT COSTS. FOLLOWING THE PUBLICATION OF A SPECIAL REPORT TO THE MINISTER OF AGRICULTURE IN MARCH, CONFIRMING THESE DIFFICULTIES, AND SIGNS OF GROWING DISSATISFACTION OF FARMERS WITHIN NATIONAL PARTY RANKS, IT WAS TAKEN FOR

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GRANTED THAT BOTH ECONOMIC AND POLITICAL IMPERATIVES WOULD NECESSITATE SOME AID TO THE RURAL SECTOR IN THE NEW BUDGET.

5. THAT THE MAGNITUDE OF ASSISTANCE IS AS GREAT AS IT IS, SURPRISED, HOWEVER, SOME OBSERVERS. TOTAL GOVERNMENT PAYMENTS TO THE FARM SECTOR ARE CALCULATED AT DOLS NZ 92 MILLION FOR THE REMAINING NINE MONTHS OF THE 1978/79 FINANCIAL YEAR (TO MARCH 31, 1979) AND DOLS NZ 109 MILLION ON A FULL CALENDAR YEAR BASIS. THIS

COMES OUT TO AROUND DOLS NZ 1000 FOR EACH FARMER IN CASH AND SOME DOLS NZ 500 IN KIND. ON THIS BASIS, WAGE AND SALARY EARNERS RUN A DISTANT SECOND, HAVING TO WAIT FOUR MONTHS FOR AN AVERAGE TAKE HOME PAY IMPROVEMENT OF ABOUT DOLS NZ 300 A YEAR BASED ON THE PROPOSED TAX REVISIONS.

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6. IN THE PAST NEW ZEALAND HAS TAKEN PRIDE IN THE STATEMENT THAT ITS AGRICULTURAL EXPORTS ARE PRODUCED WITHOUT SUBSIDY. WITH WHAT THE NEW BUDGET ADDS TO EXISTING SUBSIDIES OF ONE KIND OR ANOTHER, THE TRADITIONAL CLAIM OF UNSUBSIDIZED EXPORTS RINGS A BIT HOLLOW. GENERALLY SUBSIDIES DOUBLED THIS YEAR GOING FROM DOLS NZ 87 MILLION LAST YEAR TO DOLS NZ 169 MILLION. MAJOR ELEMENTS OF THE BUDGET WHICH WILL BENEFIT FARMERS INCLUDE:

(A) A CASH GRANT OF 50 CENTS FOR EACH SHEEP, DOLS NZ 2.00 A HEAD FOR BEEF CATTLE AND DOLS NZ 5.00 A HEAD FOR DAIRY CATTLE. THE PAYMENTS ARE DESIGNED TO PROVIDE SOME COMPENSATION FOR LOSS OF INCOME DUE MAINLY TO DROUGHT THIS YEAR AND TO ENCOURAGE DEVELOPMENT PROGRAMS.

(B) AS A SIGNIFICANT LONG-TERM MEASURE THE GOVERNMENT HAS ESTABLISHED THE PRINCIPLE OF A TAXPAYER CONTRIBUTION TO MINIMUM PRICE LEVELS FOR FARM PRODUCTS TO PROVIDE A GUARANTEED RETURN IN YEARS WHEN THE MARKET PRICE FALLS BELOW THE MINIMUM. THE NEW MINIMUM PRICES SET ARE IN MOST CASES SUBSTANTIALLY ABOVE THE PRESENT MINIMUMS ADMINISTERED BY THE PRODUCER/COMMODITY BOARDS AND ARE CLOSE TO PRESENT MARKET PRICES. (DETAILS REPORTED SEPTEL)

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(C) THE TRADITIONAL SUBSIDY FOR FERTILIZER HAS BEEN RAISED FROM DOLSNZ51,000,000 TO DOLSNZ61,000,000, WHILE THE SUBSIDY FOR THE TRANSPORT OF FERTILIZER AND LIME IS UP FROM DOLSNZ16,000,000 TO DOLSNZ24,000,000.

(D) OTHER MEASURES INCLUDE SUBSIDIES FOR DAIRY BEEF, MEAT, DAIRY PRODUCTS AND PLANT INSPECTORS' FEES, AGRICULTURAL PEST CONTROL AND ANIMAL DISEASE CONTROL.

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7. EMBASSY COMMENT:

THE NEW BUDGET WAS GREETED WITH APPROBATION BY MOST OF THE PUBLIC PROVIDING AS IT DOES SO MANY BENEFITS. IN THIS CONTEXT IT IS INTERESTING TO NOTE, HOWEVER THAT FEW NEW MEASURES ARE PROVIDED FOR DIRECT UNEMPLOYMENT RELIEF (LEVELS STILL STAND AT AN ALL TIME HIGH), THE FEELING APPARENTLY BEING THAT THE MACRO REFLATIONARY MEASURES WOULD THEMSELVES DO MUCH TO EASE THE PROBLEM OF THE JOBLESS. THE OPPOSITION LABOR PARTY HAS MADE PERFUNCTORY ATTACKS AND UNVEILED ITS OWN COUNTER BUDGET, THE MOST INTERESTING ASPECT OF WHICH IS A PROPOSAL FOR A NEW SURCHARGE ON IMPORT DUTIES. EFFECTIVE AS IT IS AS A POLITICAL DEVICE BEFORE THE ELECTIONS, THE NEW GOVT BUDGET RAISES AT LEAST TWO BASIC QUESTIONS:

(A) TO WHAT EXTENT WILL THE REFLATIONARY TAX CUTS FEED AN ALREADY HIGH (14-15) LEVEL OF INFLATION?

(B) IF THE GRANTS AND SUBSIDIES STIMULATE AGRICULTURAL PRODUCTION, CAN NEW ZEALAND FIND THE NEW MARKETS TO TAKE THE INCREASE?

OF PARTICULAR INTEREST IN TERMS OF THE PRESENT MTN NEGOTIATIONS ARE THE INCREASED SUBSIDIES AND THE MINIMUM PRICE SCHEME. THE GOVERNMENT COMMITMENT TO THE LATTER MAKES IT ESSENTIAL THAT THE GNZ DO ITS UTMOST TO GAIN AGREEMENT FOR ITS MINIMUM PRICE AGREEMENT FOR DAIRY PRODUCTS WITHIN THE MTN; FOR WITHOUT SUCH A COVER, THE TREASURY HERE COULD HEMORRHAGE IN MAKING PAYMENTS TO FARMERS SHOULD FUTURE PRICES PLUMMET BELOW PRESENT LEVELS. PRESS REPORTS HAVE QUESTIONED WHETHER THE SUGGESTED SUPPORT PRICES ARE VIABLE, A VIEW SHARED BY MEAT BOARD REPRESENTATIVES IN CONVERSATIONS WITH US. END LIMITED OFFICIAL USE HEALY

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